

**CMP: Rs 713**

**Stock Info**

NSE	VOLTAS
Sector	CONSUMER DURABLES
Face Value (Rs)	1
Equity Capital (Rs Cr)	33
Market Cap (Rs Cr)	23605
52w H/L (Rs)	725 / 502

**Shareholding Pattern**

	%
<b>(As on September, 2019)</b>	
Promoters	30.3
FII	14.6
DII	33
Public & Others	22.1

Source: Ace Equity, Arihant Research

**Stock Performance (%)**

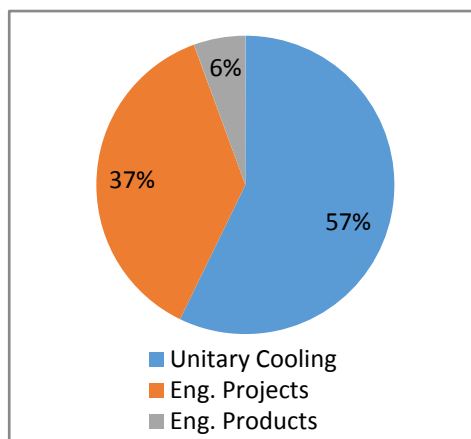
	3m	6m	12m
VOLTAS	20.6	24.6	31.5
SENSEX	8	6.7	14.7

**VOLTAS vs SENSEX**



Source: ACE Equity, Arihant Research

**Segmental Revenue Contribution**



**Incorporated in 1954, Voltas is India's largest air conditioning company and one of the world's premier engineering solutions provider and projects specialist. Their operations are classified under three major business segments: Unitary Products, Engineering Projects, and Engineering Products and Services.**

**The Company's Unitary Cooling Products Business offers a comprehensive range of cooling solutions including air conditioners, air coolers and commercial refrigeration products. The Engineering Projects business provides MEP (Mechanical, Electrical, Plumbing) and HVAC (heating, ventilation and air conditioning) solutions and has successfully implemented several landmark projects in India and overseas. The Company closely works with the Government of India for various rural electrification programmes. The Engineering Products and Services business represents leading equipment manufacturers in Textile Machinery and Mining & Construction Equipment for sale, distribution and after sales service.**

**Key Extracts from Annual Report:**

- India is expected to become the 5th largest consumer durables market in world by 2025. The nation's appliance and consumer electronics sector is set to grow at a compound annual rate of 13.4%, to touch \$20.6 billion by 2020. Consumer durables accounts for more than 40% of end consumer spending in India.
- The sector has huge untapped market for appliances like AC's, washing machines and refrigerators. Air Conditioners have a penetration of 4% in India, compared to global average of 30%. National Electronic Policy will also boost investment in the sector.
- FY19 was a challenging year for the industry owing to unseasonal rains and erratic weather conditions in some parts of the country, especially the Northern part which accounts for more than 40% of the demand and a subdued festive season. As a result, the industry has de-grown by around 3% during the year. Increasing input costs and depreciated rupee, added to the industry's woes.
- Despite headwinds of the current year, longer term industry prospects will be driven by the increasing consumer confidence, higher disposable incomes, lower penetration, better availability of power and many other positive factors.
- Consolidated Net Revenue grew by 11% to Rs. 7,124 Crore from Rs. 6,404 Crore in the previous year while Profit after Tax was down 11% to Rs. 514 Crore from Rs. 578 Crore in the previous year. Net profit margins during the year declined from 8.8% in FY18 to 7.0% in FY19.
- The company's operating profit decreased by 7.7% YoY during the fiscal. Operating profit margins witnessed a fall and stood at 8.6% in FY19 as against 10.3% in FY18.
- Overall, net cash flows for the company during FY19 stood at Rs 53 Cr from the Rs -55 Cr net cash flows seen during FY18.

**Key Extracts from Annual Report:**

- Through its 50:50 joint venture with the Turkish-based company Arcelik, Voltas has forayed into consumer durable products such as refrigerators, washing machines, microwave ovens, and dishwashers. Launched in the second half of 2018, these products are sold under the brand Voltas Beko. Rs. 118 Crores were invested in the VoltBek JV during the year. Over 44 Refrigerators, 40 Washing machines, 12 Microwaves/Ovens, 7 Dishwashers and 7 Chillers were launched during the year.
- Voltas launched over 100 Exclusive Brand Outlets (EBO) across Tier II and III cities in India.
- Around 1.58 mn cooling products were sold during the year with 5,000 Cr Pending Projects Order Book.
- Voltas is now the No. 2 player in the Air Cooler category having sold around 1.3 lakhs Fresh Air Coolers during 2018-19.
- Distribution network covered over 15,000 touch points in India and has expanded to 19,000 touch points in Q2FY20.
- Profit before tax was down to Rs. 677 Cr from Rs. 805 Cr due to lower profits in Unitary Cooling Products business and losses in new JV (investment phase), which was partially offset by increase in the Projects business.
- On the domestic front, Universal Comfort Products Limited reported profit before tax of Rs 75 Cr in 2018-19 and Rohini Industrial Electricals Limited reported profit of Rs 13 Cr.
- Debt/Equity Ratio increased to 8% from 4% last year. Also ROCE decreased from 20% to 16%.
- Borrowings were higher by 122% primarily for Projects business (including subsidiary companies) as compared to last year.
- Company declared annual dividend of Rs. 4 per share aggregating to Rs. 132 Cr.

**Unitary Cooling Products**

- Voltas continued to be the undisputed Market Leader with sales of over 1.2 mn units and increased its market share (across Multi-Brand outlets) to 23.7% from 22.1%.
- Voltas has 4 Existing manufacturing locations and 2 Upcoming plants. During the year, the Company has set up a manufacturing plant for higher tonnage cooling products such as VRF (Variable Refrigerant Flow) products and Chillers in Waghodia, Gujarat. Voltas has also commenced work on manufacturing facility at Sanand for the JV.
- Stock of finished goods was at higher level as compared to 2017-18 due to building up of inventory for peak season by Unitary Cooling Products business.

**Electro-Mechanical Projects and Services**

- The Domestic Projects Group (DPG) continued its steady performance this year with majority of orders coming in from the electrification sector and the infrastructure space. The Company's subsidiary, Rohini Industrial Electricals Limited, which executes electrical projects now contributes 40% to the Domestic Order book.

**Engineering Products and Services**

- The technical textile industry in India has the potential to grow at a rate of 15-20 per cent annually to touch \$30 billion over the next five years.
- The Textile Machinery business faced pressure on margins due to the declining yarn prices and the withdrawal of certain specific spinning based State policies apart from the generic issues of credit disbursement affecting capital expenditure. Timely focus on the after-sales business helped compensate.
- A strong, six decade old partnership with Laxmi Machine Works (LMW) ensured company's market share in spinning at 56%.
- With uncertainty clouding the re-opening of the mines in India, the Mining sector continued to face challenges. However, thrust on road building by the Government under the Bharatmala scheme has ensured increased business in this sector.
- The increase in current liabilities was mainly due to an increase in short-term trade payables in the Products business.
- Voltas' Unitary Cooling Products revenue was down by 2% at Rs. 3,154 Cr, Engineering Projects revenue increased by 27% to Rs. 3619 Cr and Engineering Products revenue grew by 1% to Rs. 312 Cr.
- The consolidated segment revenue for 2018-19 was higher by 11% at Rs. 7,085 crores as compared to Rs. 6,380 crores last year mainly due to higher turnover in the Electro-mechanical Projects business.

**Management Outlook:**

- Going forward, demand for air conditioners will be driven by first-time users, replacement/second buy users and high-end buyers, who look for exclusive additional features. At the same time owing to rising temperatures, increasing disposable incomes and aspirational levels, a stronger rural demand is anticipated. Therefore the company is aiming to Ramp up the share of high-potential inverter-based products.
- Rising urbanisation across India and favourable government policies for infrastructure, rural electrification, revamping of railway stations, development of metros, roads, airports and ports are driving demand for Engineering Projects segment.
- The Company has strategically increased focus on Government funded projects emphasising inclusive growth. Work on high-priority government projects with well-defined completion time frame and reasonable visibility on cashflows.
- As the preferred contractor, Voltas is recognised to have expertise and resources for executing mid to large size projects in Gulf Cooperation Council (GCC) countries. At the same time, the Company is also looking to foray into new geographies such as Bahrain and Kuwait.
- The company aims to offer a greater number of products in the post-spinning segment by adding principals manufacturing high-end products.
- Voltas continues to be the preferred partner for Vale in Mozambique and is well placed to benefit from their ramp up in production. It will also tap into emerging opportunities post clearance of mining ban in India and venture into new African countries that are witnessing healthy growth in mining activities.

**Risk & Concern:**

- Increasing competitive intensity in the room AC segment may impact sales.
- Economic headwinds in India may affect the growth plans in the short term.
- Climate change causing shorter summers may, in turn, affect the cooling product sales and hamper channel sentiments.
- Higher tariffs such as a custom duty hike on imports may affect profitability.
- Economic slowdown and geo-political risks in the GCC might affect the International Business
- Slowdown in Government spend on Infrastructure may affect the Projects Business.
- Adverse movement in commodity prices may impact profitability.
- Increased volatility in the currency may pose challenges to operations and diluting earnings.
- Increasing import of textile and garments in India may lead to lower demand for end products and reduced investments in the sector. Free trade agreements with major buyer countries by other countries could lower exports from India.

**Q2FY20 Quarterly Performance:**

- The Consolidated Total Income for the quarter ended 30th September, 2019 was higher by 2%, at Rs. 1495 crores as compared to Rs. 1467 crores in the corresponding quarter last year. Profit before tax was higher by 7%, at Rs. 150 crores as compared to Rs. 140 crores in the corresponding quarter last year.
- Voltas continues to be the leader with No.1 position in Room Air conditioner business with market share of 24.4% (YTD, at Multi-Brand Outlets). Segment Revenue increased by 19% and was Rs. 526 crores as compared to Rs. 441 crores in the corresponding quarter last year. Segment Result was higher by 64% at Rs. 46 crores as compared to Rs. 28 crores in the corresponding quarter last year.
- Industry grew by approx. 33% YTD while Voltas continued to outperform the market. Inverter ACs contribution has as expected, continued to grow.
- Voltas products are now available across more than 19,000 touch points pan-India.
- Electro-Mechanical Projects and Services Segment Revenue and results for the quarter was Rs. 809 and Rs. 56 crores as compared to Rs. 901 crores and Rs. 76 crores respectively in the corresponding quarter last year. Carry forward order book of the Segment was higher by 34% at Rs. 6567 crores as compared to Rs. 4883 crores in the corresponding quarter last year.
- The volatility in oil prices coupled with geo-political tensions in the Middle East, have created a cloud of uncertainty for the region. Most of the ME countries are facing liquidity challenges creating elongated periods of certification and collection of receivables.
- The total order book for the international operations as on September 30, 2019 is around Rs.2787 crores with orders of around Rs.1297 crores was booked during the quarter.
- Domestic projects has successfully enhanced its order book to Rs. 3780 crores, having booked Rs. 1319 crores of orders during the quarter. This includes metro projects of Mumbai and Kolkata Metro. Business of water management solutions continues to increase its order book with recent wins in Odhisha and Bihar.
- Engineering Products and Services Segment Revenue and Results for the quarter were at Rs. 80 crores and Rs. 25 crores as compared to Rs. 73 crores and Rs. 29 crores, respectively in the corresponding quarter last year. The textile industry is passing through a difficult period and in this scenario, Voltas is focusing on aftersales business in both spinning and post spinning segments.

**Q2FY20 Result financials: (Consolidated)**

Particulars (in Cr.)	Sep-19	Sep-18	YoY (%)	Jun-19	QoQ (%)
<b>Revenue</b>	<b>1,422</b>	<b>1,421</b>	<b>0.04%</b>	<b>2,654</b>	<b>-46%</b>
Other Income	73	46		43	
Total Income	1,495	1,467		2,697	
Expenditure	1,316	1,313	0.3%	2,363	-44%
Interest	5	6		4	
<b>PBDT</b>	<b>167</b>	<b>148</b>	<b>13%</b>	<b>287</b>	<b>-42%</b>
<b>PBDTM (%)</b>	<b>11.8</b>	<b>10.4</b>		<b>10.8</b>	
Depreciation	8	6		8	
Share of profit/loss of joint ventures and associates	-9	-2		-21	
<b>PBT</b>	<b>150</b>	<b>140</b>	<b>7%</b>	<b>258</b>	<b>-42%</b>
Tax	43	33		92	
<b>PAT</b>	<b>107</b>	<b>107</b>		<b>166</b>	<b>-35%</b>
<b>PATM (%)</b>	<b>8.2</b>	<b>7.7</b>		<b>7.1</b>	
EPS	3.2	3.1	2.9%	5	-35%

## Business Operations:



## Peer-Group Comparison:

Rs in Cr.	VOLTAS			WHIRLPOOL			BLUE STAR		
	FY18	FY19	%Change	FY18	FY19	%Change	FY18	FY19	%Change
Revenue(Gross)	6,428	7,124	11%	6,079	6,588	8%	4,648	5,235	13%
EPS (Rs)	17	15	-11%	27	32	19%	15	20	32%
PBIDTA	837	798	-5%	646	746	15%	283	371	31%
PBIDTA Margin(%)	13	11		10	11		6.1	7.1	
PAT	578	514	-11%	350	407	16%	146	209	43%
PAT Margin(%)	8.9	7.9		5	6		3.1	4	
PE	36	41	14%	55	47	-15%	50	34	-32%
FCF Per Share	15.6	-4.2	-127%	23	25	9%	-8.3	14.3	272%
ROA(%)	8.4	7.7	-8%	10	11	10%	4.9	5.2	5%
ROE(%)	15.9	14.1	-11%	19	21	11%	20.1	18.9	-6%

**Balance Sheet:**

Particulars (Rs. in Cr.)	FY18	FY19	%Change
<b>Liabilities</b>			
Shareholder's Funds	3,905	4,110	5%
Minority Interest	32	35	
Deferred Tax Assets / Liabilities	-5	-99	
Current Liabilities	3,271	3,285	
Other Long Term Liabilities	1	1	
Long-Term Provisions	87	85	
<b>Total Liabilities</b>	<b>7,292</b>	<b>7,416</b>	<b>2%</b>
<b>Assets</b>			
Net Block	252	297	18%
Currents Investments	488	1,236	
Total Non-Current Assets	2,442	1,472	
Cash and Bank	284	321	
Total Current Assets	3,826	4,090	
<b>Total Assets</b>	<b>7,292</b>	<b>7,416</b>	<b>2%</b>

**Profit & Loss:**

Particulars (Rs. in Cr.)	FY18	FY19	% Change
<b>Net Sales</b>	6,428	7,124	11%
EXPENDITURE :			
Increase/Decrease in Stock	105	-280	
Raw Material Consumed	4,462	5,542	
Employee Cost	587	642	
Other Expenses	611	608	
<b>Total Expenditure</b>	5,765	6,512	13%
Other Income	174	186	
<b>PBIDTA</b>	837	798	-5%
Interest	12	33	
Exceptional Items	1	-12	
Share of profit / (loss) of joint ventures and associates	4	-52	
<b>PBDT</b>	830	701	-15%
Depreciation	24	24	
Tax	227	164	
<b>Profit After Tax</b>	578	514	-11%
<b>PATM (%)</b>	<b>8.9</b>	<b>7.9</b>	
Adjusted EPS (Rs.)	17.3	15.4	-11%

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